

Calvalley announces financial results for the third quarter ended September 30, 2014

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CALGARY, Nov. 6, 2014 /CNW/ - [Calvalley Petroleum Inc.](#), (TSX: CVI.A)

Highlights

- During the third quarter of 2014 the Company sold an average of 914 barrels per day of crude oil compared to 2,170 barrels per day in the prior period of 2013. Sales volumes in the quarter, which reflect the timing of crude oil shipments, comprise only one shipment that occurred in August 2014. A shipment of crude oil occurred at 5am on October 1, 2014, missing, by hours, the cut-off point to be recognized as revenue in the third quarter. If the vessel had sailed a few hours earlier, on September 30, 2014, the third quarter reported sales volumes (before royalties and taxes) would more than double to 1,876 barrels per day and inventory volumes would decline by 50,000 barrels from 112,800 barrels to 72,800 barrels. For the nine month period to September 30, 2014 crude oil sales have averaged 698 barrels per day compared to 2,282 barrels per day in the comparable period of 2013.
- The Company's working interest share of production continues to be restricted for several reasons. The Al Roidhat field has been shut down for all of 2014 due to marketing constraints specific to using the marketing infrastructure to the west through the Ras Isa terminal. Access to the marketing infrastructure to the east, at Block 51 and the Ash Shihr terminal, is still restricted due to blockades by the locals. In August, production was restricted at Hiswah and Ras Nowmah as crude oil could not be trucked to Block 18 due to operational issues also, in September, production was restricted for six days due to a labour dispute. In total, production has been restricted at Hiswah and the Ras Nowmah fields for 23 of the 92 days and 106 of the 273 days for the quarter and year respectively. In the fourth quarter to date, production from the Hiswah and Ras Nowmah fields has not been restricted and gross average daily production is approximately 4,300 (2,150 net) barrels per day.
- For the third quarter of 2014, the average sale price received was \$100.81 per barrel which represents a discount of \$1.12 to the average Dated Brent Crude price of \$101.93 for the quarter. The product netback for the third quarter of 2014 was \$27.95 per barrel, and for the nine months ended September 30, 2014, the netback was \$30.50 per barrel and represents a decrease of 28 per cent from \$42.49 per barrel for the comparable nine month period of 2013 reflecting lower realized prices for crude oil and higher per unit operating costs due to production restrictions and increased processing costs through alternate marketing facilities at Block 18.
- Earnings in the third quarter of 2014 were \$0.01 per share (\$1.0 million) compared to \$0.07 per share (\$5.3 million) in the third quarter of 2013. For the nine month period ended September 30, 2014 earnings were \$0.01 per share (\$0.5 million) compared to \$0.21 per share (\$17.2million) for the nine month period in 2013. Inventory of crude oil at the end of September 30, 2014 was approximately 112,800 barrels and represents an increase of 83,200 barrels from December 31, 2013 and an increase of 71,300 barrels from September 30, 2013.
- Funds flow from operations ("Cash Flow") for the quarter ended September 30, 2014 was \$0.02 per share (\$1.9 million) compared to \$0.09 per share (\$7.1 million) in the prior year period. For the nine month period to September 30, 2014 Cash Flow was \$0.03 per share (\$2.6 million) compared to \$0.28 per share (\$23.1 million) in the prior year period.
- Capital expenditures in the third quarter of \$0.2 million are down significantly from \$2.8 million in the third quarter of 2013. Capital expenditures for the nine months to September 30, 2014 of \$4.5 million include the cost of equipment and services for the capital program including the pressure maintenance project at Hiswah and are down 34 per cent from capital expenditures of \$6.8 million for the comparable period of 2013. Current capital expenditures are targeted to facility projects which will be required to increase and optimize production from existing fields, including the pressure maintenance scheme at Hiswah.
- On August 18 2014, the Board of Directors declared a special dividend of C\$0.07 per common share payable to shareholders of record on August 29, 2014. The dividend was paid in cash on September 15, 2014.

- Calvalley has a strong balance sheet with approximately \$81 million in working capital at September 30, 2014. The working capital balance increases to \$84 million with inventory of crude oil valued at current market value rather than cost.

Operations Update

In late December 2013, the tribes in the Hadramout province initiated road blockades in retaliation against the Government for the unfortunate death of a local leader. As a result of these blockades the Company has been unable to access services required to implement its appraisal and development drilling program. The Company can provide no assurance as to when the blockades will be removed or when the required services will be accessible.

Notwithstanding the constraint on the appraisal and development drilling program, the Company is continuing work on facility projects that are not impacted by the blockades. These facility projects are required to enhance and optimize future productivity from the existing major fields at Hiswah, Ras Nowmah and Al Roidhat.

Hiswah Field

The Company is proceeding with plans to expand the pressure maintenance scheme at the Hiswah field, which is primarily a Saar/Naifa limestone reservoir, and has issued a contract for the fabrication of a 40,000 bpd water filtration and injection skid. This facility is currently under construction outside the Republic of Yemen, and will be completed and ready for transportation to the Republic of Yemen in 2015. The equipment is to be installed at the Central Processing Facility ("CPF") replacing the existing water injection facility which has a current capacity of approximately 8,000 bpd.

Construction, installation and commissioning of the water filtration and injection skid is a priority project for the Company in order to optimize production and crude oil recovery from the Hiswah field. As a result of uncertain operating conditions within the Republic of Yemen including the availability of skilled personnel and a safe operating environment, the Company can provide no reliable estimate as to when the facility will be delivered, installed and commissioned. Notwithstanding these uncertain operating conditions, the Company will monitor the situation closely to ensure the project is advanced as soon as practical.

To implement the optimal pressure maintenance scheme at Hiswah, additional water source wells, water injection wells and producing wells will be required. The Company's future plans include the drilling of up to two water source wells, up to fifteen injection wells and up to fifteen producing wells. The Company can provide no assurance as to when, or if, these wells will be drilled.

Ras Nowmah and Al Roidhat Fields

Both the Ras Nowmah and Al Roidhat fields are Qishn clastics sandstone reservoirs with high permeability and active aquifer support. Plans for full development of these reservoirs are secondary to the Hiswah field development due to the difference in reservoir size and quality.

Plans to enhance productivity at these fields include developing facilities to handle forecast increases in both crude oil and water production levels from both new wells and existing wells. The significant facility projects include water separation, water distribution, water disposal and water filtration and injection facilities and an inter-field pipeline to gather and transport produced fluid for treatment and blending at the CPF.

The safety and security of staff and equipment, availability of skilled manpower and equipment, timely regulatory approval of projects and activities and potential delays in equipment deliveries are key constraints to the timely execution of the Company's opportunities. The Company can provide no assurance as to when wells will be drilled or facilities completed.

Exploration

The Company has a significant portfolio of prospects and leads within Block 9. A targeted seismic acquisition program of 2D and 3D seismic data can effectively manage and reduce the risk involved in drilling the prospects and leads. The Company has prepared an acquisition program for up to 1,000 km of new 2D seismic data and up to 300 sq. km. of 3D seismic data. Plans to proceed with the acquisition program have been deferred indefinitely due to several factors including the availability of services to complete the program

and the uncertain operating environment.

Since 2011, the political environment in Yemen has been evolving and activity levels in Yemen throughout the oil industry have been limited. Furthermore, safety and security is a major concern for all operators. These issues have an impact on deciding to commit to projects without completing a comprehensive risk analysis of potential returns.

The Company is focusing on implementing the pressure maintenance program at Hiswah, as a priority, due to the quality and size of the reservoir. The Company expects to fund this program and other capital projects out of working capital and funds from operations.

When the political environment stabilizes in the country, and issues regarding safety and security are resolved, the Company will review the timing of the development activities for both the Ras Nowmah and Al Roidhat fields in the context of its activities completed at Hiswah. The next step will include revisiting the status of its seismic acquisition program which is necessary for prioritizing future exploration drilling locations.

Financial information

Significant financial information is included in the table below and is discussed further in the Company's Management Discussion and Analysis.

(in thousands of US dollars except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Revenue (Gross)	8,479	22,143	19,887	67,895
Revenue from crude oil sales (net of royalties)	5,319	13,880	12,473	42,557
Adjusted EBITDA ⁽¹⁾	2,270	8,341	3,394	27,026
Operating income ⁽¹⁾	1,416	6,595	1,487	21,539
Earnings	960	5,300	533	17,177
Per share	0.01	0.07	0.01	0.21
Capital expenditures	152	2,788	4,452	6,773
Funds flow from operations ⁽¹⁾	1,874	7,083	2,565	23,137
Per share	0.02	0.09	0.03	0.28
Cash flow from operating activities	46	7,019	508	24,092

⁽¹⁾ See "Non-IFRS Measures" disclosure in September 30, 2014 MD&A filed on www.sedar.com

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Calvalley's Management's Discussion and Analysis and Unaudited Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2014 can be found for viewing by electronic means on The System for Electronic Document Analysis and Retrieval at www.sedar.com. They can also be found on the Company's website at www.calvalleypetroleum.com.

Calvalley is an international oil and gas company, with offices in Calgary, Alberta, Canada, that operates its 50% working interest in Block 9 of the Masila Basin, in The Republic of Yemen.

Forward-looking Information

This press release may contain forward-looking information. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", and similar expressions may have been used to identify this forward-looking information. These statements reflect management's current beliefs and are based on information currently available to management. In particular, statements in respect to current capital expenditures being targeted to facility projects; the timing of the construction, installation

and commissioning of the water filtration and injection skid at Hiswah, the drilling of water source wells, water injection wells and producing wells at Hiswah; field development activities for the Ras Nowmah and Al Roidhat fields including facility projects, new wells and an inter-field pipeline, and expected funding sources for the Hiswah pressure maintenance program and other capital projects contain forward looking information. Forward-looking information involves significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information including, but not limited to, operational risks, availability of supplies and services, potential delays or changes in plans with respect to exploration or development projects or capital expenditures, delays and interruptions in drilling and completion activities for undetermined periods, success in drilling activities, changes in general economic and market conditions and other risk factors. Although the forward-looking information contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with this forward-looking information. Investors should not place undue reliance on forward-looking information.

The forward-looking information contained herein is expressly qualified in their entirety by this cautionary statement. The forward-looking information included in this press release is made as of the date of this press release and Calvalley assumes no obligation to update or revise it to reflect new events or circumstances except as expressly required by applicable securities law.

Contact

[Calvalley Petroleum Inc.](#)
investorrelations@calvalleypetroleum.com
Edmund Shimon, Chairman & CEO
Gerry Elms, CFO
+1 (403) 297-0490

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